

**MINUTES OF REGULAR
RETIREMENT BOARD MEETING**

Thursday, November 18, 2021

Virtual Meeting

6:00 p.m.

NOTICE: This virtual meeting of the Retirement Board was held pursuant to and in compliance with the Virginia Freedom of Information Act, Section 2.2-3708.2 and state and local legislation adopted to allow for continued government operation during the COVID-19 declared emergency.

All participating members of the Retirement Board were present at this meeting through electronic means. All members of the public may view this video of this meeting on the City's website at www.fallschurchva.gov.

1. **Call to Order** The virtual meeting was called to order by Chair Connie Rydberg at 6:05 PM

2. **Roll Call**

Present: Connie Rydberg, Charles Collier, Marshall Jarrett, Kevin Knudsen, Larry Little, Nate Dupree

Absent: Richard Campbell

Staff Present: Cindy Mester, Meaghan DeCelle, Shari Davidson and Kiran Bawa

Also Present: Kristen Michael, FCCPS COO (arrived late)

Robert Burrell, Segal Consulting

Melanie Clark, Segal Consulting

Mary Nye, AndCo Consulting

Lauren Albanese, Financial Investment News

3. Introductions and Welcome

Shari Davidson is the new Benefits Manager for the City of Falls Church and will be staff for the Board.

4. Receipt of Petitions:

Jeff Peterson, resident of the City of Falls Church, entreats the Board to take into consideration the effect of the Pension Plans' investments on Environmental, Social and Governance impacts. Mr. Peterson encourages a focus on global climate change, specifically investigating whether investments are being made into fossil fuels or other carbon-emitting practices. The Board acknowledged Mr. Peterson's comments and noted that any Environmental, Social and Governance considerations must be reviewed first and foremost from our fiduciary responsibilities.

5. Review and approval of draft Minutes from September 9, 2021 meeting:

Marshall Jarrett moved and Nate Dupree seconded to approve the minutes of September 9, 2021 as presented. **The motion passed 6-0-1** (Rick Campbell absent).

6. June 30, 2021 Actuarial Valuation Presentation for Basic, Police and OPEB: Segal Consulting

Segal Consulting presented the valuation of the Plans as of June 30, 2021. The mortality projection scale was updated from MP-2019 to MP-2020 per the Board's direction in February 2020 to use the most recent available projection scale. The total impact on both the Basic Plan and Police Plan was a decrease in the Actuarially Determined Contribution (ADC) of 0.4% of payroll (prior to applying the Minimum Contribution Override and ignoring that the ADC can't be less than zero). The City contributions are in line with actuarial recommendations. Both plans are over 100% funded. The long term assumed rate of return remained unchanged from last year at 6.5% and market rates of return

exceeded this long term assumption, in line with market conditions. Non-investment gains resulted from no salary increases for active members, lower cost of living adjustments for retirees and more pensioner deaths than expected. The Basic Plan preliminary ADC decreased from 3.36% to 3.30% of payroll. The Police Plan preliminary ADC decreased from 11.61% to 10.75% of payroll. The Minimum Contribution Override applied for both Plans.

No new participant data was collected for the OPEB valuation this year, and, instead, a modified roll-forward approach was used, consistent with common-practice for a plan of this size (and consistent with the Board's contract with Segal). Similar to the Basic and Police Plans, the mortality projection scale was updated from MP-2019 to MP-2020. There was a net decrease in obligations of about \$549,000 (about 5.4%) due to reflecting the actual health care premiums for FY22 (versus the prior assumed premiums). Actuarial experience gains decreased the Plan's Net OPEB Liability (NOL) by about \$4.2 million. This was largely due to fund investment performance that was much higher than the 6.5% long term assumption, and the net actual contributions and benefit payments that were higher than expected. All three employers (City general government, City schools and the Northern Virginia Criminal Justice Academy) are over 100% funded on market value basis, mostly due to the significant investment gains. The combined plan is 194% funded on a Market Value of Assets basis, and therefore the Minimum Contribution Override (MCO) does not apply this year. The FY23 ADCs are 0% of payroll for the city general government, 0% of payroll for city schools, and 0.74% of payroll for the NVCJA.

Marshall Jarrett moved and Nate Dupree seconded to accept the June 30, 2021 Actuarial Valuation reports for the Basic, Police and OPEB plans as presented. **The motion passed 6-0-1** (Rick Campbell absent).

7. Asset Allocation Study and Review of the Investment Performance for the Third Quarter of 2021 for the Basic and Police Pension Plans and OPEB—Mary Nye of AndCo Consulting

Asset Allocation Study:

Mary Nye presented a study reviewing the current asset structure of the Plans, target return, long-term strategic weights, allocation ranges and the managers and vehicles in each asset class. Based on the study, AndCo recommends that the Board consider widening the policy ranges for Real Estate investments and US Equities. The Board requested to revisit the widening of policy ranges at the February meeting. Based upon the advice of AndCo, and due to continued fluctuations in long term market expectations, the Board chose to not to recommend any other asset allocation changes at this time, and that the allocation be reviewed again in 12 months.

Marshall Jarrett moved and Nate Dupree seconded to accept the Asset Allocation Study recommendation as presented by AndCo Consultants. **The motion passed 6-0-1** (Rick Campbell absent).

Market Performance:

Growth in the US equity markets slowed during the 3rd quarter of 2021. Inflation remained well above the Federal Reserve Bank's average target of 2.0%. US interest rates remained flat despite concerns of rising inflation. For the period, large cap companies returned 0.6%, compared to -0.9% for mid-caps and -4.4% for small company stocks.

Returns over the trailing 1-year were strong across all broad US equity markets. International markets also performed well but lagged relative to their domestic counterparts. Bond market returns were muted over the 1-year period.

Basic and Police Plan and OPEB Market Values, Net Flows and Returns on Investment were presented in a consolidated chart. Market Value for the Basic Plan at the start of the third quarter was \$137.9

Million with net flows of \$1.49 Million out of the plan, market gains of \$305 thousand and an ending market value of \$136.7 Million. Thus the gross return for the Basic Plan in Q3 was 0.21%.

The Police Plan at the start of the third quarter was \$45.15 Million, net flows totaled \$443 thousand out of the plan, market gain of \$136 thousand and the ending market value for Q3 was \$44.8 Million. Thus the gross return for the quarter was 0.29%.

Gross returns for the 12-month period were 20.6% for the Police Plan and 21.7% for the Basic Plan.

Asset Allocations: All asset allocations are currently within policy range. Fixed income is on the low end in the Police and Basic Plans due to muted returns. As the Asset Allocation study showed, the City's Plans have a good mix of asset classes; no changes are recommended at this time. The Board could consider widening the policy range for Real Estate investments to give more flexibility.

Comparative performance for the Basic and Police Plans showed the Total Funds close to the top quartile in overall universe for the quarter and Fiscal Year to Date. In the five-, seven- and ten-year comparative performances, the plans showed rankings in the top decile. In international equities, Templeton has showed limited performance compared to peers. AndCo will take a deeper dive with the manager and report back to the Board any findings or recommendations.

OPEB funds started at \$19.7 Million at the beginning of Q3, showed investment loss of \$112 thousand and an ending market value of \$19.59 Million. Growth in the OPEB plan for the last 12 months showed a gross return of 23.90%.

OPEB broad asset allocations show all funds within policy and close to target. Individual funds are also within policy and close to target. Returns are tracking their underlying indices. The Q3 returns show - 0.57%, ranking 76th in the universe. The 1-year performance shows market gains of 23.90% and a rank in the top decile.

Other than Templeton, AndCo has no concern with any of the pension or OPEB funds, and does not recommend any fund changes at this time.

8. 2022 Meeting Calendar and Proposed Dates—Meaghan DeCelle

The Board will meet for their regular quarterly meetings on Thursday, February 10, May 12, September 8 and November 10, 2022. The required annual Fiduciary Training is scheduled for Thursday, October 20, 2022.

Marshall Jarrett moved and Nate Dupree seconded to accept the scheduled 2022 Retirement Board quarterly regular meeting and Fiduciary Training dates as presented. **The motion passed 6-0-1** (Rick Campbell absent).

9. 2022 Retirement Board Work Plan—Cindy Mester

Marshall Jarrett moved and Nate Dupree seconded to accept the 2022 Retirement Board Work Plan as presented. **The motion passed 6-0-1** (Rick Campbell absent).

10. City of Falls Church Administrative Fee FY23 Budget Allocation—Cindy Mester

Marshall Jarrett moved and Nate Dupree seconded to accept City of Falls Church Administrative Fee for the Fiscal Year 2023 in the amount of \$36,050, to be paid from the Basic and Police Plan funds and the OPEB Trust. **The motion passed 6-0-1** (Rick Campbell absent).

11. City Council Equity Work Plan Update—Cindy Mester and Connie Rydberg

Ms. Mester updated the Board on City Council's entreaty to City Boards and Commission to consider policy changes that would fit the City of Falls Church's goal for equity and inclusion in the community and acknowledged the Board's primary responsibility is to fulfill its fiduciary responsibilities to the beneficiaries of the plan and that the Board should not take any action that would jeopardize the funding of the Plans. On May 25, 2021, the Chair submitted a memo to City Council with possible changes with an emphasis on the Board's fiduciary responsibilities. City Council met in a work session on September 20, 2021 to review all the Board and Commission suggestions. City Council did not finalize a list of focus for Boards and Commissions. Future updates will be reported to the Retirement Board.

12. OPEB Legal Structure—Connie Rydberg

At the September 2021 Quarterly meeting, the Board approved the Multi-Agent Employer Plan, referred to as the "Three Plans", legal structure and to directed staff to consult with Legal Counsel about the intended next steps. Per Board direction, the Plan Administrator solicited bids to prepare the relevant documents for implementing the legal structure.

Marshall Jarrett moved and Nate Dupree seconded that the Falls Church Retirement Board convene in closed meeting pursuant to VA code Section 2.2-3711.A.29 for Discussion of the award of a public contract involving the expenditure of public funds, including interviews of bidders or offerors, and discussion of the terms or scope of such contract, where discussion in an open session would adversely affect the bargaining position or negotiating strategy of the public body. **The motion passed 6-0-1** (Rick Campbell absent)

Marshall Jarrett moved and Nate Dupree seconded to return from closed session and cease further discussion of confidential items. **The motion passed 6-0-1** (Rick Campbell absent)

Marshall Jarrett moved and Nate Dupree seconded to certify that only what was permitted, pursuant to VA code Section 2.2-3711.A.29, was discussed in closed session. **The motion passed 6-0-1** (Rick Campbell absent)

Marshall Jarrett moved and Nate Dupree seconded to award the OPEB Legal Structure Phase 2 project to Segal Consulting and accept the proposed cost not to exceed \$11,250 and authorize the Plan Administrator and City Attorney to execute the contract in consultation with the Chair. **The motion passed 4-2-1** (Rick Campbell absent)

Marshall Jarrett moved and Nate Dupree seconded to authorize the Plan Administrator and City Attorney, in consultation with the Chair, to amend the OPEB Legal Structure Phase 2 contract for additional tasks scope, to include termination clause regarding allocation of assets that mirrors the language in the Basic and Police Pension Plans. This addition to the contract will be made pursuant to Purchasing Policy Limits. **The motion passed 6-0-1** (Rick Campbell absent)

13. Employee Retirement Savings Plans—Cindy Mester

The procurement process for the plans' record keeper for the City's retirement savings plans, the 457(b) and 401(a) is still progressing. Discussion of the Board taking on fiduciary oversight will continue.

14. Consent Agenda—Connie Rydberg

Items on the consent agenda were made public and provided to the Board in advance of the meeting for review. Items included the City Council Annual Report, Plan Administrator's Quarterly Report, deferred action on Plan amendments, and deferred action on policy updates.

Marshall Jarrett moved and Nate Dupree seconded to approve the consent agenda as presented. **The motion passed 6-0-1** (Rick Campbell absent).

15. Other business not on the agenda
None.

16. Adjournment: Marshall Jarrett moved and Rick Campbell seconded to adjourn the meeting at 10:01 PM.
The motion passed 6-0-1 (Rick Campbell absent).

THE CITY OF FALLS CHURCH IS COMMITTED TO THE LETTER AND SPIRIT OF THE AMERICANS WITH DISABILITIES ACT. TO REQUEST A REASONABLE ACCOMMODATION FOR ANY TYPE OF DISABILITY, CALL 703-248-5129, TTY711.